5 China Dependent Stocks to Sell Now

There was a time, not so long ago, where American ideology on geopolitics was anchored by the belief that there was a greater good that could be achieved through economics. That iPhones and NetFlix would entice China to play by international trade rules. That inclusion on the global stage might encourage Turkey or Iran or Russia to be better neighbors. Feed a terrorist and maybe he or she won't be so angry….

Some of our elected leaders truly believed that Iraq would welcome the democratic process with open arms and open voting booths. Instead, the removal of Sadaam's iron fist paved the way for a band of fundamentalist lunatics to create their hell-on-earth religious state, complete with its own ESPN for cutting off people's heads…

Western ideals and the capitalist system have been a powerful one-two punch. Capitalism has lifted billions of people out of poverty, slashed infant mortality rates and boosted literacy around the world. But it's not a perfect combo. And if there's one event that has opened our eyes to the precarious state of the global peace dividend the world has enjoyed over the last 30 or so years, it would be Vladimir Putin's decision to invade Ukraine.

Even when 150,000 Russian troops were amassed at the Ukraine border, plenty of smart people around the world said – "naaah, he's not going to turn the clock back 80 years and invade a sovereign nation…"

Now we've got Vlad's rape, torture, and murder machine on the news every night. And China's on the verge of backing his play by supplying bombs and bullets. Suddenly the world looks a lot more ominous…

Globalization as the world has known it is over. We are in the first chapter of a brand new Cold War. But it's not just America vs the Soviet Union this time around…

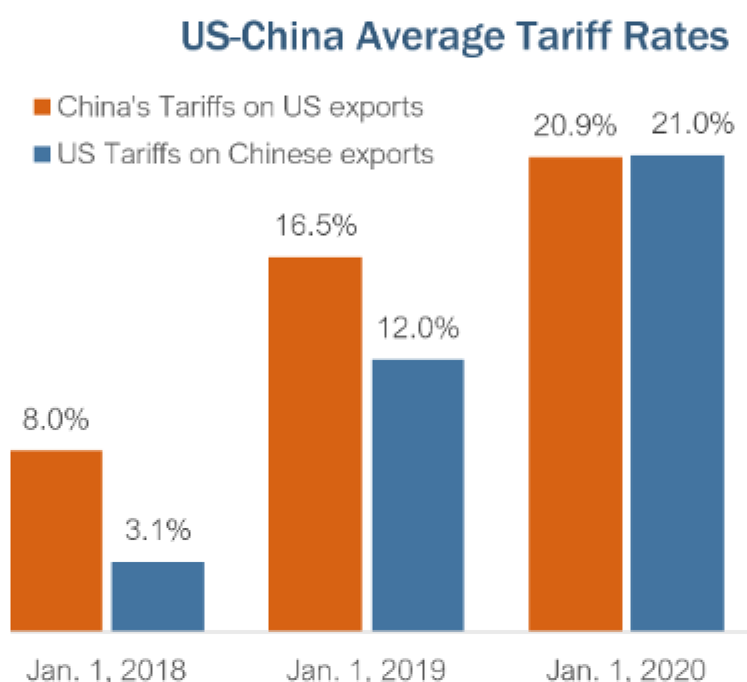
Bottom line: If you think the current bear market is just about interest rates, it's time to think again.

My China Zero-Investment Policy

President Clinton paved the way for China to be admitted into the World Trade Organization on January 11, 2001, negotiating a range of criteria on things like intellectual property and human rights to make it happen.

Of course, China ignored or openly violated most of these criteria from the get-go. But the Bush administration had bigger fish to fry with its focus on the War on Terror. In the wake of the financial crisis, the Obama administration began to openly criticize China and its trade practices. But the net result of the tough talk was just complaints filed with the WTO.

It was president Trump who took action in 2018 when he levied a bunch of tariffs on a range of Chinese exports to the US. The dollar value of these tariffs have gone up ever since…



The Biden administration has continued to enforce Trump-era tariffs. It has also added to them.

In October of 2022, the Biden administration issued new rules regarding China's semiconductor industry. American companies have been banned from selling advanced semiconductors to China. The ban also covers the equipment needed to make and test semiconductors.

And to top it off Americans working in China's chip sector were given a choice: leave China or lose your American citizenship.

They packed up and left.

China's tech industry is crippled by the Biden administration's new rules on semiconductor sales to China. China doesn't have the technical know-how to make and use advanced semiconductors without at least some imported equipment. And the Biden administration has made it nearly impossible for China to import any of this equipment.

Without U.S. technology, China's ambitions for AI, hypersonic weapons, and automation will, as one expert put it, "…wither on the vine and go away."

Simply put: the new semiconductor embargo on China is the most damaging and provocative move against China the U.S. government has ever made…

No one knows what China's response to this semiconductor embargo will be. Maybe China will move to make Taiwan part of China again. Maybe China adopts new restrictions on U.S. companies that do business in China…

China has yet to formally respond, but make no mistake: there will be a response

The Giant Panda in the Room

Even before Alibaba (NASDAQ: BABA) founder Jack Ma was temporarily "disappeared" by the Chinese Communist Party for "re-education" back in 2020, I've been telling my readers that Chinese stocks should be 100% off limits for anyone that values money.

Alibaba shares were selling for $250-$275 back when Ma took his little vacation. Today, Alibaba shares trade for less than half that…

On October 26, 2022, Chinese companies lost $90 billion in market value. It wasn't earnings. It was the fact that Chinese president Xi Jinpeng just consolidated his power and will be China's leader for life. And Xi is not a friend to the stock market, to capitalism, to investing, or to the U.S.

Of course, Wall Street investment banks want individual investors to think it's all hunky-dory, that there might even be opportunity with Chinese stocks.

About a year ago, a JP Morgan analyst issued an investment report titled: "Chinese Stocks are Un-investible." The bigwigs at JP Morgan quickly retracted that report, calling it a "mistake."

Shortly after that "mistake," JP Morgan's Chief Global Strategist, Marko Kolanovic put out another report on China where he wrote that "The swift decline in Chinese equities is "disconnected from fundamentals" and presents a buying opportunity for stock investors…"

I wonder what "fundamentals" he's talking about…

Maybe it's the fact that there's already a de facto moratorium on any new Chinese stocks getting listed on the New York Stock Exchange or the Nasdaq. Maybe he doesn't agree with the two

main reasons for this moratorium. One, China does not allow its companies' accounting to be verified, and Chinese companies routinely lie about their numbers. And two, it's difficult to know which Chinese companies are Trojan Horses for the Chinese Communist Party.

The simple fact is: Wall Street investment banks (along with some of America's biggest companies) are still heavily invested in globalization and the Chinese economy. It takes time to unwind trillions of dollars in investment in China. They are not going to help you cover your ass until they've covered their own

And what better way to try and keep those stock prices at current levels while the fat cats unload than to tell you and I to buy?

Simply not owning Chinese stocks that are listed here in the U.S. – companies like Alibaba (NASDAQ: BABA), Tencent (TCEHY) and JD.com (NASDAQ: JD) – is a critical step for any investor's financial health. It is only a matter of time before Chinese companies listed on U.S. stock exchanges get pulled and moved to Hong Kong.

But what may not be so obvious is what a full trade war with China will mean for U.S. companies that do significant business in China.

5 China Dependent Stocks to Sell Now

We've already seen what the damage looks like when companies pull out of a country. Russia and Ukraine combined made up 9% of **McDonald's (NYSE: MCD)** total revenue in 2021 – a little over $500 million. **Starbucks (NASDAQ: SBUX)** had much less Russian exposure, less than 1% of revenue. Still, that's around $300 million lopped off the top line.

Russia is small potatoes. When U.S. companies are forced to pull back on the business they do in China – or have to completely abandon the Chinese market – the damage will be much, much worse…

How should individual investors proceed as tensions escalate between the U.S. and China? How will this affect the economic and investment landscape?

Given the ban on the sale of semiconductors and equipment to China, semiconductor stocks might seem like they are in big trouble. After all, nearly all U.S. semiconductor companies do business in China. But the amount of Chinese business they do varies…

At the low end of the scale, there's companies like (**Teradyne (NYSE: TER)** and **Micron (NYSE: MU)**, get between 17%-18% of their revenue from China. **Qulacomm (NASDAQ: QCOM)** and **Wolfspeed (NASDAQ: WOLF)** get 35% of the revenue from China. **Advanced Micro Devices (NASDAQ: AMD)** gets 39% of its revenue from China, and for (**Nvidia (NASDAQ: NVDA**) it's 45%.

These are big numbers, no doubt. But when it comes to semiconductor stocks, there are a couple questions to consider.

The first has to do with how export products are defined. For example, if Apple has a processor made in Taiwan, and then that processor is shipped to China and gets assembled into an iPhone, when the finished iPhone leaves China for sale in another country, that iPhone is considered a China export. And so a portion of the revenue collected from the final sale of that iPhone will be accounted for as if it was revenue from China. But if that iPhone was assembled in India or Vietnam, then revenue would no longer be considered revenue from China.

All that means while, yes, semiconductor companies do appear to be very dependent on revenue from China, the fact is that as chip companies move assembly out of China (which they are doing), their percentage of revenue from China will fall.

Plus, the continued growth of cloud computing, the emergence of artificial intelligence, increased military spending by American allies, and the transition to electric vehicles mean that semiconductor companies should have little problem maintaining growth.

The biggest risk is to those companies that depend on revenue that comes from sales directly to Chinese consumers.

It is multinational companies that do a significant amount of business in China, direct to Chinese consumers, that are right in the crosshairs of escalating economic war with China.

6 China Dependent Stocks to Sell Now

1. **Wynn Resorts (NASDAQ: WYNN) and Las Vegas Sands (NYSE: LVS)**

Wynn Resorts (NASDAQ: WYNN) gets 72% of its revenue from China. **Las Vegas Sands (NYSE: LVS)** is lower, 62%, but both are still largely dependent on China.

Macau overtook Las Vegas as the world's biggest gambling destination in 2006. In 2019, gambling revenue hit its peak at $36.5 billion. For comparison's sake, Las Vegas gambling revenue was $6.6 billion before COVID hit.

Last year, 2022, Macau gambling revenue actually came in lower than Vegas – $5.3 billion vs. $8.3 billion. It would be easy to look at last year's underperformance as solely a result of China's zero-COVID rules…

Shares of Wynn Resorts fell into the mid-$50s in 2022, as China's lockdowns seemed to have no end in sight. But Wynn shares have put in a powerful rally up to $110 as investors expect a return to the boom times now that China has abandoned its zero-COVID policy.

It's the same story for Las Vegas Sands. The stock cratered to $31 in 2022 and has since rallied to $60 as China's economy opens up.

But it won't be business as usual for the casinos that operate in Macau…

China president Xi Jinping is obsessed with realigning the Chinese economy so that it enhances the "common prosperity." Xi plan is essentially wealth redistribution. He's cracked down on real estate and lending markets, he's trying to transform online education into non-profits, he's made rules about how much time people can append playing video games – and he's trying to change the gambling culture in Macau…

Xi wants Macau to be more family-friendly, like Las Vegas. In order to renew their licenses, Macau's casino companies (including Wynn and Las Vegas Sands) have to invest $13 billion to create and promote so-called "non-gambling activities."

And China's Communist Party is also restricting high rollers freedom to even go to Macau.

One casino insider told Bloomberg that "...the age of the superprofit [for Macau] is over."

A Credit Suisse analyst wrote: "We expect the pace of recovery will start to slow meaningfully…"

2. **Starbucks (NASDAQ: SBUX)**

I recommended Starbucks back in 2012 at $27 bucks a share. It had everything you want in a great investment. Excellent management, popular product, extremely loyal customers, and Starbucks can raise prices 15% anytime they want and no one will bat an eye.

Back when I recommended it in 2012, Starbucks was expanding into China. It was hardly the only U.S. company trying to gain a foothold with Chinese consumers. Over a decade of wage growth after its entry into the WTO meant it had a true middle class. And China's government seemed eager to encourage consumer spending to help balance its export economy.

Over the last decade, Starbucks' share price is up 400% as its global expansion has blossomed.

Starbucks currently has 6,000 stores in China. That's 17% of all its stores. And Starbucks plans to open another 3,000 stores in China over the next 2 years. It's pretty clear that future revenue growth at Starbucks is heavily dependent on China. And anything threatens this growth story, shares of Starbucks could quickly fall 30% or more. That's not a risk I would advise anyone to take.

3. **General Motors (NYSE: GM)**

GM sells more cars in China than any other foreign automaker. If you consider the fact that GM operates 29 factories in the and 27 factories in China, it's pretty obvious that its Chinese business is very nearly as important as its U.S. business…

But most investors aren't aware of just how much GM's China business is suffering. It sold 2.3 million vehicles in China in 2022. That was 20% less than 2021. (For comparison's sake, in 2022, GM sold 2.2 million cars in the U.S.)

Now, China was still locking down entire cities as part of its zero-COVID policy in 2022. So I suppose we could blame that for a drop in car sales. But if that were truly the case, then there should've been a drop in sales for electric vehicles too, right?

Well, the fact is, EV and hybrid sales *doubled* in China during 2022, to 5.6 million units. But sales for GM's Wuling EVs *fell* 13%...

There's no escaping the fact that GM is struggling in China. And China hasn't yet acted to support its domestic car companies at the expense of foreign ones. But as the economic war between China and the U.S. escalates, it seems inevitable that GM will see further sales declines.

Shares of GM are already 20% of their recent highs. Punitive action form China will send them much lower.

4. **Tesla (NASDAQ: TSLA)**

4 million all electric vehicles were sold in China in 2022. That's five times as many as were sold in the U.S. China is hands down the biggest EV market in the world.

BYD is the biggest EV company in China, with 1.8 million EVs and hybrids sold in 2022. Tesla comes in a distant third, with 722,000 cars manufactured at its Shanghai plant.

But of course, Tesla has struggled to keep its sales momentum in China. Several rounds of discounting in order to make sales means that the average price of a Tesla in China is now 30% cheaper than it is in the U.S. That won't be good for Tesla's bottom line…

And it looks like China may have started to implement policies to benefit Chinese EV makers at the expense of foreign companies…

China's Contemporary Amperex Technology Company, or CATL, is the biggest EV battery maker in the world. It dominates, with a 37% share of the global battery market. And it is the biggest maker of lithium iron phosphate batteries. Lithium iron phosphate batteries are cheaper

and last longer than traditional lithium ion batteries, which is why this battery tech is found in 40% of EVs.

CATL recently offered big discounts to Chinese EV makers like Nio (NASDAQ: NIO) and Geely, if they pledge to use CATL batteries for up to 80% of their future battery needs.

So far, this offer has not been extended to foreign companies that build EVs in China, like Tesla.

The intent of this discounting seems clearly aimed at supporting domestic Chinese EV makers. And given the importance of China's EV market to its economy, China is likely to take more action to support its own companies.

Tesla sold more cars in China last year than it did in the U.S. If it is forced to keep its discounts in place, or worse, increase them, Tesla will see a drop in revenue, earnings and share price.

5. **Boeing (NYSE: BA)**

China is expected to account for around 25% of all airplane sales over the next decade, with a total value of ~$1.3 trillion. And in July, 2022, China's 3 biggest airlines announced a purchase agreement for 300 brand new planes from… Airbus.

Not one plane from Boeing. And in fact, Boeing sales to China have been essentially nil since 2018.

Obviously, the grounding of the 737 MAX didn't help things. And while China recently re-certified the few 737 MAX planes that were already sold pre-pandemic, it hasn't led to any new orders for Boeing. And with some big arms deals in the works between the U.S. and both Australia and Taiwan, Boeing is likely to be excluded from China of the foreseeable future.

Boeing has a lot baked into its valuation with the resumption of 737 MAX deliveries. But it is highly unlikely that revenue from China will help Boeing meet highly optimistic earnings forecasts.

Boeing shares have rallied nicely over the last 6 months. Take this opportunity to ditch the stock before it moves lower.

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